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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 4, 1983

Dear Bill:

After my recent presentation to the CCEA, several Cabinet members asked what the spending trends would look like based on the midyear economic forecast. Those new figures, presented in the enclosed memo, indicate an even sharper rate of decline of the domestic spending share of GNP.

The most striking fact is that, because of the legislative changes that have been made since 1981, nondefense spending excluding Social Security and Medicare will decline from 9.2 percent of GNP in 1980 to 7.8 percent of GNP in FY 1984 and 7.0 percent in FY 1986. I should emphasize that these are current services numbers and do not require any further legislative changes in spending programs.

The projected dollar amount of domestic spending is being cut sharply below the level that would be implied by the 1980 GNP share. For example, a 9.2 percent share of GNP would imply nondefense outlays of \$388 billion in 1986. Instead, the current services level for 1986 is only \$295 billion, a cut of \$93 billion.

Since the CCEA meeting I have also looked into the implications of the Congressional Budget Resolution. As the memo shows, the Congress has proposed total nondefense spending that is just about equal to the current services level in each year through 1986. This means that the real level of nondefense outlays shows no growth and therefore declines as a share of GNP. Congress has apparently accepted the inevitability of cutting domestic spending.

I would be happy to answer any questions.

Sincerely,



Martin Feldstein

The Honorable William J. Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Enclosure



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